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After an Apple Buyout, Sun Could Be Mighty In Internet Computers

Workstation King Has Means
And Motive to Do a Deal,
But Cultures May Not Jell

Getting Hyper With Java

By JIM CARLTON and JOAN E. RIGDON
Staff Reporters of THE WALL STREET JOURNAL
CUPERTINO, Calif. — Apple Computer Inc. Chief Executive Michael Spindler was conspicuous by his absence last month at Apple's annual Macworld Expo in San Francisco, a trade show that has been his bully pulpit in the past. Instead, Mr. Spindler was huddled in his glass-walled office here going over Apple's latest round of disastrous financial news — with a heart monitor strapped to his chest.

Mr. Spindler has high blood pressure and other medical problems, and the scene

The Macintosh Era Unwinds

Apple's scrappy, sometimes chaotic culture that permitted it to make technology cool and approachable, also prevented it from profiting from the revolution it helped create. Article on B1.

in his increasingly bunker-like office was an apt symbol for Apple's current situation: an ailing company, run by an ailing man. Now, the sun is about to set on the great American business story that Apple represents: The company is on the verge of accepting a takeover bid by Sun Microsystems Inc., a maker of workstations and Internet servers in nearby Mountain View, Calif. Sun is a company with a take-no-prisoners, no-nonsense culture that is about as far removed as can be from the folklore image of hip renegade Apple waging war on the gray-flannel computer world.

According to people familiar with the situation, Apple and Sun have agreed on the basic outlines of a deal under which Sun would acquire Apple in a stock swap valued at about \$4 billion, or \$33 for each Apple share.

That represents a puny premium over Apple's stock price before word of the pending deal was disclosed by The Wall Street Journal Tuesday — a sign of how little leverage Apple commands at this point. Yesterday, Apple shares rose \$1.25 to \$31.625. In after-hours trading, however, the stock fell to \$30.125. One of the most telling indications of Apple's decline is that its stock price last week was back to where it had been in 1987, even though the company's revenue has quadrupled.

Apple has been swamped by the costs of competing alone against a horde of rivals using technology from Microsoft Corp. and Intel Corp. It hasn't been able to compete on price or maintain its market share, and it is racking up huge losses.

Sun — whose stock fell \$4.44 to \$44.125 yesterday — declined to comment on the possible deal.

At Apple's annual meeting yesterday, its chairman, A.C. "Mike" Markkula Jr., said he couldn't comment on the matter "until the time is right." Despite assertions by four people close to the company about the continuing Sun talks, Mr. Markkula later told reporters that "Apple is not for sale." People close to the talks translated that to mean Apple isn't being shopped around, as in an auction, but is willing to sell to the right bidder for the right price. Sun and Apple are still negotiating.



Michael Spindler

Before the shareholders' meeting, Mr. Markkula said he and the board "want you to know that we understand the seriousness of the issues facing our company . . . and we're closely working with management to develop plans to address the needs comprehensively."

Some shareholders weren't buying that. Addressing Mr. Spindler in a cavernous theater on the Apple campus here, New York money manager Orin McCluskey declared: "You have mismanaged assets, you have wasted a valuable franchise, and you have brought a great company to its knees. Mr. Spindler, it is time to go." The Apple CEO listened impassively.

It is still possible the Sun-Apple talks could hit snags. It also is possible that other bidders for Apple will emerge. Among companies known to have mulled an Apple bid in the past are Oracle Corp., Motorola Inc. and Dutch conglomerate Philips Electronics NV. International Business Machines Corp. actually made a bid for Apple in 1994 — at \$40 a share — and was turned down. Several observers close to IBM say they don't believe it is interested any longer, because Apple has become too much of a niche player and doesn't seem to fit in with IBM's networking strategy. Officials at Motorola and Philips declined to comment, while officials at Oracle weren't available.

If the Sun deal goes through, it will rock the computer world, quickly altering the competitive landscape. On the hardware side, Sun dominates the workstation business and is the top maker of servers for the Internet. Servers are powerful computers that store and distribute data to networks of computers. Apple, whose Macintosh is the computer of choice for many artists, game makers and other digital-content creators, is the No. 1 maker of so-called

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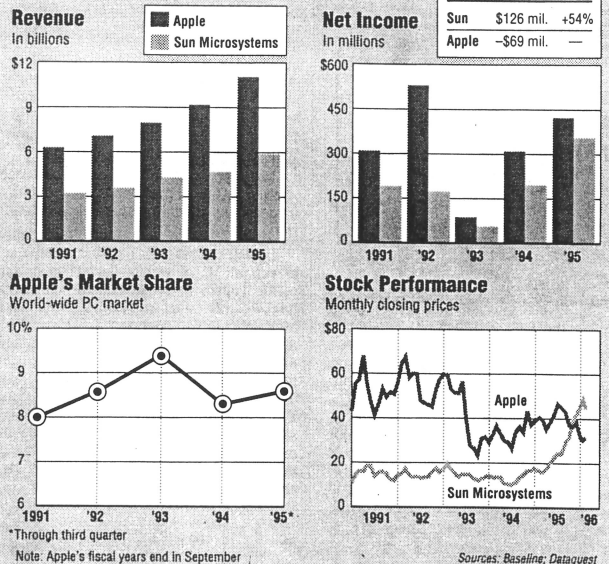
Business and Finance

APPL E IS ON THE VERGE of accepting a takeover bid by Sun Microsystems. People close to the matter say the two have agreed on the basic outlines of a stock swap valued at about \$4 billion, or \$33 for each Apple share — a tiny premium over Apple's recent stock price and one that indicates how little clout the struggling computer maker is perceived to have.

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Comparing Sun and Apple



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client computers that people use to dial up the Internet from homes and universities.

Thus, if Sun acquires Apple, its hardware could dominate the Internet. Sun could also integrate Macs into its computer lineup for business customers, giving users relatively cheap, powerful and user-friendly desktops to tap into various corporate networks.

But the software implications are more strategically important for Sun's future. Although Sun currently gets most of its revenue from hardware, it believes networking software is its key source of future growth. The company is banking on a new

network computing language, Java, to drive that growth. Java, which Sun officially released over the Internet yesterday, is designed eventually to run on any type of computer or operating system, potentially rendering meaningless the "platform" wars between computer makers and the operating-system wars between Microsoft and everyone else. Since the Microsoft-Intel duopoly is winning both those fronts, those companies might have the most to lose.

Sun's goal is to make Java the de facto standard for how programs are written and used on the Internet, and Apple's customers would be the ideal people to spread Java.

As Apple has withered, many software developers have deserted it in favor of the Windows operating system from Microsoft. If Java runs equally well on Macintosh and Windows, Apple might win back its older developers, plus new ones: Developers could simply write for Java instead of having to cast their lot with one or the other.

For Apple, a Sun deal offers a lifeline when it is becoming increasingly clear that the company otherwise could be headed down the tubes. But Sun might clean house at Apple, adding to layoffs of 8% that Apple itself announced last week. Analysts have suggested that Sun might sell Apple's hardware division to Asian clones or other buyers.

The Macintosh faithful, a devoted bunch, need not necessarily fear an acquisition of Apple. A takeover would bail out the maker of their beloved machines. Moreover, if Sun's strategy for Java succeeds, Apple users would get more software more quickly. Currently, most developers write for Windows first and then for Apple as an afterthought.

Sun definitely has pockets deep enough to handle an Apple acquisition. It has been booming lately, reporting net income of \$126 million, or 65 cents a share, in the second fiscal quarter ended Dec. 31. Revenue rose 19% to \$1.75 billion. Its stock has been surging, although it took a hit yesterday, as the stocks of companies planning acquisitions often do.



Scott McNealy

Risks for Sun

But there are perils for Sun because Apple's problems are so messy — falling market share, large losses still to come, cratering morale, delays in important new software. "Sun can't afford to get bogged down in Apple's Byzantine politics," says John McCarthy, an analyst at Forrester Research of Cambridge, Mass.

Questions arise about how well Sun, which has repeatedly experimented with the personal-computer business but never seriously taken the plunge, can manage a larger company in that very business. "They have never successfully gotten into the PC business, which is a very different culture and point of view," notes Stewart Alsop, of InfoWorld Publishing Co.

Then there is the issue of whether Sun has the expertise to manage the combined company. Its management, though more focused and effective than Apple's has been, may not be broad or deep enough to turn around another company while executing its own daring expansion into the network software and Internet business from its mainstay workstation business. "Who are they going to hire to run Apple?" Mr. Alsop asks.

There is also a risk that the two companies' cultures will clash and undermine the

promised benefits, as has happened in other technology combinations such as Novell Inc.'s acquisition of WordPerfect Corp. Sun's hard-driving chief executive, Scott McNealy, who plays ice hockey for kicks, may have the ideal temperament to bring order to Apple, but the job would be by far the



Steve Jobs

toughest he has faced. Mr. McNealy, who named his recently born son Maverick, is known for insulting both employees and customers he deems not to be catching on to his ideas quickly enough. He has frequently admonished his staff to "kick butt" in video pep talks.

Mr. Spindler, by contrast, is often ill at ease in public gatherings, to the point of breaking out in a sweat during speeches. Some Apple employees say he has such difficulty communicating his ideas to subordinates that they sometimes walk out of a meeting befuddled.

Different Markets

Both men are known for having short fuses — but differing strategies on dissent. While Mr. Spindler brooks none from his executive staff, Mr. McNealy encourages internal debate and has been known to laugh off his own senior staff's public insults about his bad temper. "Scott isn't known for his adult behavior," James Gosling, a top Sun software programmer and the main inventor of Java, said in a recent interview. When a Sun public-rela-

tions official implored Mr. Gosling to retract the comment, he refused, saying he has said the same thing to Mr. McNealy's face.

And, of course, Apple and Sun are used to selling to different markets. Apple is in consumer products, while Sun focuses on more-complex computing systems for corporate customers. "It's like integrating Honda with Porsche," says George Zachary, a partner in Mohr Davidow Ventures, a Menlo Park, Calif., venture-capital firm.

At the annual meeting yesterday, Mr. Spindler bore the brunt of shareholders' fury over Apple's long slide, which culminated last week in an announcement of a net loss of \$69 million in the fiscal first quarter ended Dec. 29. Richard Ash, a shareholder from Philadelphia, declared: "We want new leadership!" The audience erupted in applause.

But in fact, Mr. Spindler is far from the only one with responsibility for Apple's troubles. Each of the three CEOs Apple has had helped sow the seeds of today's predicament. Its first CEO, co-founder Steve Jobs, had a towering ego, refused to listen to advisers who said he was losing grip on the company's growth and eventually was ousted by John Sculley, the PepsiCo Inc. marketer Mr. Jobs had hired to help lend stability to the company.

Helping Microsoft

Mr. Sculley did stabilize Apple at first, but later showed he didn't understand technological directions. His worst mistake was licensing the copyrights protecting the "look and feel" of the Mac operating system to Microsoft in 1985, in order to get Microsoft to write more applications for the Mac. The license allowed Microsoft to launch its hugely successful Windows operating system — and to defend it against a lawsuit brought by Apple alleging Windows was so similar to the Mac that it violated Apple's copyrights. As Windows began to swamp the Mac, Mr. Sculley was faulted for refusing to license Apple's operating system to clones as a defensive measure, and he wasted a lot of Apple's resources on the ill-fated hand-held Newton computer.

Mr. Spindler finally did license the Mac's operating system about a year ago,



John Sculley

but the delay ensured that Apple could never compete on price with the hundreds of manufacturers that make PCs based on Microsoft software and Intel chips. Mr. Spindler has done some things right at Apple. He masterfully managed the Mac's transition to the new, speedier processor, the PowerPC chip. But he has made big mistakes. One was refusing IBM's buyout offer at \$40 a share in 1994. Mr. Spindler and Mr. Markkula thought the price was too low by at least \$20 a share; they embarked on a plan they thought would raise profits and Apple's stock price so the company could command a higher price from a suitor later on.

"I think Spindler was trying to get Apple in shape, and that backfired," says one person close to Apple's board. "He wanted to be a hero on the price."

Mr. Spindler is no hero. His strategy failed because he didn't cut prices quickly enough and constantly misgauged demand, sometimes overestimating, sometimes underestimating. While other computer makers were enjoying boom times, Apple's market share slid, from 9.4% when he took over in 1993 to 8.6% as of the quarter ended Sept. 30. Apple now expects unspecified operating losses in its current fiscal quarter, on top of at least \$125 million in charges related to yet another of Mr. Spindler's restructuring efforts.

"The recent actions by Apple management have put Apple in a position that could destroy a great American company," says Del Yocam, a former Apple chief operating officer.

Mr. Spindler's heavy-handed style and the company's fading fortunes led to a near-mutiny in October. The company's highly regarded chief financial officer, Joseph A. Graziano, asked to address a meeting of the board in Austin, Texas, without Mr. Spindler present. Mr. Graziano told directors "things couldn't go on as they were" and advised the board to either sell the company or fire Mr. Spindler, according to a person familiar with the meeting. The board backed Mr. Spindler. Mr. Graziano, who had been at loggerheads with Mr. Spindler for some time over the company's direction, resigned a short time later. One of his allies, marketing chief Daniel Eilers, resigned shortly thereafter.

As the company's problems mounted, Mr. Spindler became more isolated, even at times cutting off communications with key software developers and other cus-

tomers. Apple failed to notify Symantec Corp., one of the largest makers of software for the Mac, of a major change in the Mac operating system in Japan late last year. That resulted in Symantec programs not working at all on the computers, costing Symantec more than \$1 million in lost sales. Symantec CEO Gordon Eubanks fired off a letter of complaint but received no reply, according to the people familiar with the incident. Mr. Eubanks wouldn't comment.

Although the German-born Mr. Spindler cuts a burly and robust figure — he was nicknamed "Der Diesel" for his tireless work in Europe for Apple during the 1980s — his health has long been a subject of concern. In addition to problems with high blood pressure, several past and present Apple employees say, Mr. Spindler, 53, is prone to stress-related attacks. During the late 1980s, paramedics once were summoned to assist him when he was discovered barely conscious on his office sofa, according to a person familiar with the episode.

Speaking to reporters after yesterday's shareholder meeting, Mr. Spindler appeared somewhat frazzled but still in command. He said he is "perfectly healthy." As for the company's problems, he blurted: "I take responsibility, how could I not?"

Whatever happens, Mr. Spindler probably can look forward to a less-stressful life in the future. In the event of a takeover, his "golden parachute" contract calls for a payout of as much as a full year of his \$1 million annual salary, purchase of his \$3 million home in Atherton, Calif., and payment for relocating him and his family to France.

—Don Clark and Quentin Hardy contributed to this article.